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ABSTRACT

This study examined the attitudes of State Higher Education Finance Officers (SHEFOs) in regard to performance budgeting and performance funding of public higher education. A telephone survey of all 50 SHEFOs or alternate officers was conducted in June 1998, and the results were then compared to a similar survey conducted in April 1997. It was found that 21 states used some form of performance budgeting in public higher education in 1998, up from 16 in 1997, and that 13 states used some form of performance funding in public higher education in 1998, up from 10 in 1997. The 1998 survey indicated that half of the states employed at least one of the two funding programs, and that 11 more were considering adopting such programs in the next 5 years. Eight states had both performance budgeting and performance funding in 1998, and 14 more were considering adopting both program in the next 5 years. The report notes that performance funding is becoming less comprehensive and more circumscribed in its goals, and also that state mandates and prescriptions are declining, thus allowing coordinating boards, with campus participation, to initiate less ambitious funding programs. A copy of the survey questionnaire is included. (Contains nine tables.) (MDM)

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Joseph C. Burke
Director

Andreea M. Serban
Research Associate

Public Higher Education Program

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Joseph C. Burke
Director

Andreea M. Serban
Research Associate

Public Higher Education Program

Nelson A. Rockefeller Institute of Government
State University of New York
Albany, New York

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Address inquires to:
Public Higher Education Program
411 State Street
Albany, New York 12203-1003
Tel.: (518) 443-5835
FAX: (518) 443-5845

E-mail: burkejo@rockinst.org

www: http://rockinst.org/higheduc.htm

Current Status and Future Prospects of Performance Funding and Performance Budgeting for Public Higher Education: The Second Survey*

Joseph C. Burke and Andreea M. Serban
July 1, 1998

§ INTRODUCTION

As states increase funding for public colleges and universities, more have programs linking resources to results. These developments send a double message. Public colleges and universities are essential to state interests, but they should become more efficient and effective in meeting student and state needs. Our Second Annual Survey of State Higher Education Finance Officers shows more states connected campus budgets to institutional performance than appeared in the 1997 survey (Burke and Serban, 1997a). Although the responses in 1998 reveal similar interests in relating state resources to institutional results, they exhibit some interesting differences that may suggest emerging trends. More states prefer performance budgeting, with its loose link to budgeting, than performance funding, with its tight tie to funding. Performance budgeting grows for public colleges and universities, as more states adopt this practice for all or most of their agencies and services. The National Association of State Budget Officers called performance-based budgeting "the most significant trend in state budgeting" in both 1997 and 1998 (National Association of State Budget Officers 1997, p. 18, 1998, p.11). Our second survey also reveals that more states are adopting both performance funding and performance budgeting for their public colleges and universities. A merger of the two programs that achieves the advantages and avoids the disadvantages of each may emerge in the future. Finally, the newest efforts at performance funding impose fewer state mandates and prescriptions and allow coordinating boards in consultation with campus representatives to develop less ambitious but more acceptable programs.

Our 1998 survey shows that 26 states now have programs that consider performance in budgeting for public colleges and universities. A critical issue, is how closely these programs relate institutional performance to state funding? Responses from the State Higher Education Finance

* Special appreciation goes to The Pew Charitable Trusts that supported this survey, and to Sorin Cojocaru for his assistance in statistical analysis and presentation.

Officers (SHEFOs) in the 50 states indicate that 21 states (42%) currently have performance budgeting. Twenty of these states are considered likely to continue the program and 11 more to adopt it in the next five years. If their predictions prove valid, 31 states (62%) could have performance budgeting in the next five years. Performance funding now exists in 13 states (26%). SHEFOs see 12 of them as likely to continue this program, and 12 more as likely to start it. If their forecasts are correct, 24 states (48%) could have performance funding in the next five years. A new development is that eight states (16%) currently have both performance funding and performance budgeting; but, 20 (40%) are seen as likely to have both programs in the next five years. Collectively, these predictions indicate that 35 states, or 70 percent, could have at least one of these two programs in place in the next five years.

The 1998 survey does not suggest that performance budgeting or funding will replace traditional budgeting, based largely on current costs and student enrollments. For nearly all of the states – with the possible exception of South Carolina – costs and enrollments will remain the dominant factors in state budgeting for public higher education. It does show that coordinating boards and state officials are increasingly accepting the concept that results should somehow count when allocating resources to public colleges and universities. Performance funding and performance budgeting tilt the budget question from what states should do for their campuses toward what campuses should do for their states. States have long provided funding up front to encourage desired results. The newer approaches provide funding for achieved, rather than promised, results.

Table 1. Current Status of Performance Budgeting for Public Higher Education

Year	Number Percentage	States
1997	16 states, (32%)	Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Mississippi, Nebraska, North Carolina, Oklahoma, Rhode Island, Texas, West Virginia (revised based on the 1998 Survey).
1998	21 states, (42%)	Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Mississippi, Nebraska, North Carolina, Oklahoma, Rhode Island, Texas, West Virginia, Louisiana, Maine, Oregon, South Dakota, Washington.

Table 2. Current Status of Performance Funding for Public Higher Education

Year	Number Percentage	States
1997	10 states, (20%)	Colorado, Connecticut, Florida, Kentucky, Minnesota, Missouri, Ohio, South Carolina, Tennessee, Washington.
1998	13 states, (26%)	Colorado, Connecticut, Florida, Illinois, Indiana, Louisiana, Missouri, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Washington.

§ PERFORMANCE BUDGETING AND PERFORMANCE FUNDING

The authors of several earlier surveys made no distinction between performance funding and performance budgeting. They spoke of the number of states using institutional performance on

designated indicators in budgeting for public colleges and universities (McKeown 1996, Christal, 1996). This combination has led policy makers to confuse these two different concepts. Although those earlier surveys called attention to a generic direction in budgeting, they failed to identify how states used campus achievements on performance indicators in their budgeting process. Was the link between resources and results loose or tight? Did performance have a direct impact or only an indirect influence on state allocations?

Our 1997 and 1998 surveys sought to distinguish performance funding from performance budgeting. They defined performance funding as "special state funding tied directly to the achievements of public colleges and universities on specific performance indicators." In performance funding, the relationship between funding and performance is automatic and formulaic. If a campus achieves a prescribed target or improvement level on defined indicators, it receives a designated amount of performance funding. "Performance budgeting" occurs when "state governments or coordinating boards used indirectly reports of institutional achievements on performance indicators as a general context in shaping the total budgets for public colleges or universities." In performance budgeting, the possibility of additional funding because of good or improved performance depends solely on the judgement of state governments or coordinating boards. Performance funding ties state funding directly and tightly to performance, while performance budgeting links state budgets indirectly and loosely to results.

The lack of a clear connection to funding makes performance budgeting difficult to comprehend. The link to funding is clear in performance funding. It remains unclear in performance budgeting, because it is discretionary and undeclared. Despite the effort to clarify these two approaches, the concept of performance budgeting apparently confused many respondents to 1997 Survey. The 1998 Survey revealed that the previous study should have listed nine more states as having performance budgeting and have deleted one that did not have the program. The correct figure for 1997 should have been 16 instead of eight states. This discrepancy became apparent in the 1998 telephone interviews, which asked additional questions on performance budgeting. The Second Survey included six questions to identify the operational details and the actual impact of performance budgeting. These questions probed the use of performance reports in budget preparation with the governor and legislature, in the executive budget, and in the appropriations act and related documents. A final question asked SHEFOs in states with performance budgeting to assess the actual effect of the program on the funding of public colleges and universities. The available responses were large effect, moderate effect, little effect, no effect, and cannot determine the effect.

§ THE SURVEYS

Both surveys questioned SHEFOs or alternate officers on the status and future prospects of performance funding and performance budgeting in each of the fifty states (See Appendix for the 1998 Questionnaire). We conducted the first survey from April 17 to 28, 1997, but delayed the second until June 4 to 17, 1998. The delay allowed more states to complete their regular legislative sessions. Both surveys received responses from all fifty states. The telephone interviews began with definitions of performance funding and performance budgeting to distinguish the two approaches. The questions asked whether a state currently had performance funding and/or performance budgeting. If the state had one or both of these programs, the interviewer requested that the SHEFO predict the prospects for continuing the program or programs. As with all of the questions on the future, the available responses were highly likely, likely, unlikely, highly unlikely, and cannot predict. Respondents also indicated the date of adoption and implementation of the programs. Some of the responses on adoption dates represent estimates in states where coordinating boards acted without

legislation, and where performance budgeting evolved through a series of statutes. SHEFOs also noted whether legislation mandated the program, prescribed the indicators, and covered all or most state agencies, as well as colleges and universities. They identified the primary initiator of performance funding or budgeting from the choices of governor, legislature, coordinating board, or other. The interviewer also asked if the state had annual or periodic published reports on the performance of public colleges and universities.

§ PERFORMANCE BUDGETING

The 1997 survey listed only eight states with performance budgeting. This number leaped to 21 states in the 1998 response. Most of the change occurred because of confusion over the meaning of performance budgeting. The 1998 responses revealed that 9 additional states should have been listed as having performance budgeting in 1997: Colorado, Georgia, Illinois, Indiana, Mississippi, North Carolina, Washington, and West Virginia. On the other hand, Alabama should not have been recorded as having the program. Five more states adopted performance budgeting since April of last year. The new states included Iowa, Maine, Oregon, South Dakota, and Louisiana. This real increase of five states represents a large change in just 14 months. Whatever the confusion about the existence of performance budgeting last year, the relevant point is that 21 states – 42 percent of the total -- now say they have this program.

Table 3. Characteristics of Performance Budgeting for Public Higher Education

State	Adoption Year	Mandate	Indicators	Initiation	Performance Funding
Hawaii	1975	Yes	No	Legislature	No
Illinois	1984*	No	No	Coord. Board or Agency	Yes
Indiana	1988*	No	No	Coord. Board or Agency	Yes
Washington	1988*	No	No	Governor, Legislature, Coord. Board or Agency	Yes
Nebraska	1991	No	No	Coord. Board or Agency	No
Oklahoma	1991	No	No	Coord. Board or Agency	Yes
Texas	1991	Yes	Yes	Legislature	No
Florida	1994	Yes	No	Governor, Legislature	Yes
Mississippi	1994	Yes	No	Legislature	No
Georgia	1993	Yes	No	Governor	No
Kansas	1995	No	No	Governor	No
West Virginia	1995	Yes	No	Legislature	No
Colorado	1996	Yes	No	Legislature	Yes
Idaho	1996	Yes	No	Legislature	No

State	Adoption Year	Mandate	Indicators	Initiation	Performance Funding
Iowa	1996	Yes	No	Governor	No
North Carolina	1996	Yes	No	Legislature	No
Louisiana	1997	Yes	No	Legislature	Yes
South Dakota	1997	No	No	Governor, Legislature, Coord. Board or Agency	Yes
Maine	1998	Yes	No	Governor	No
Oregon	1998	No	No	Coord. Board or Agency	No
Rhode Island	1997	No	No	Coord. Board or Agency	No

* estimated date

Of 21 states with performance budgeting, legislation mandated the program in 12 states, while coordinating boards implemented it in nine without legislation. Only Texas prescribed the performance indicators in statute. This lack of prescription of indicators for performance budgeting differs from performance funding, where legislation dictated indicators in 39 percent of the current programs. Legislatures initiated the move to performance budgeting in nine states; coordinating agencies in six; governors in four; and a combination of governor and legislators in one, and all three groups in two. The identification of governors and legislators along with coordinating boards as the initiators in two states without government mandate suggests that board action was at times less than voluntary and always required support from state officials. Clearly, performance budgeting is moving away from mandate and prescription. Of the five programs adopted since the 1997 Survey, legislation mandated it in only two and prescribed the indicators in none. This movement follows the trend toward deregulation and decentralization in state government.

In ten of the 21 states, performance budgeting for public colleges and universities is part of a general program for state agencies. This number reflects the growth of performance budgeting in state government noted by the National Association of State Budget Officers. On the other hand, eleven states, slightly more than half, have performance budgeting only for public higher education. This statistic suggests that state governments have a special interest in linking budgeting to performance for public colleges and universities. The growing requirement of performance reports also exhibits this special interest in the efficiency and effectiveness of public higher education. Thirteen (62 percent) of the 21 states with performance budgeting for public colleges and universities also require published reports of their performance on a range of designated indicators. The surprise is that only 13 of the 21 states with performance budgeting have performance reporting, since both require the designation of performance indicators and the documentation of institutional achievements.

The combination of performance budgeting with performance funding may represent an emerging trend. Eight of the 13 states with performance funding also have performance budgeting. More significantly, all five states that adopted performance funding since the 1997 survey have performance budgeting. For some of them, performance budgeting now seems a step toward performance funding. In Florida, the legislature adopted performance funding following legislation requiring performance budgeting for all state agencies. This state could be moving toward a merger of the two programs. Colorado's initiation of performance budgeting as alternative to performance funding

seems an exception, since, in all the other states, performance budgeting either preceded or was adopted at the same time as performance funding.

Performance budgeting exhibited more stability than performance funding. None of the states that adopted performance budgeting has abandoned it, which differs markedly from the record of performance funding. The answers from SHEFOs on the likelihood of continuing performance budgeting shows this stability. Respondents from 11 states considered its continuance highly likely and nine likely. Only the SHEFO from Georgia felt he could not predict its future, because the governor who championed the program was leaving office.

Clearly, performance budgeting has become the preferred method for linking campus budgets to institutional performance. Undoubtedly, its loose link to resources is less controversial to campuses than performance funding. It is also more acceptable to legislators. Performance funding, with its automatic tie to performance, lessens their control over the funding of public campuses, including those in their home districts.

Table 4. Likelihood of Continuing Performance Budgeting for Public Higher Education

Likelihood	Year	Number Percentage	States
Highly Likely	1998	11 states, (52%)	Colorado, Illinois, Iowa, Kansas, Mississippi, North Carolina, Oklahoma, Oregon, South Dakota, West Virginia, Washington.
Likely	1998	9 states, (43%)	Florida, Hawaii, Idaho, Indiana, Louisiana, Maine, Nebraska, Rhode Island, Texas.
Unlikely	1998	None.	None.
Highly Unlikely	1998	None.	None.
Cannot Predict	1998	1 state, (5%)	Georgia.

Performance budgeting appears attractive as well as stable. Although 42 percent of the states already have the program, four more are considered highly likely and seven likely to adopt it in the next five years. No SHEFOs thought adoption of this program highly unlikely and only six considered it unlikely. SHEFOs from a dozen states could not predict future action on performance budgeting. If the predictions on continuation and adoption are correct, 31 states – 62 percent – could have performance budgeting in the next five years. Whatever the final number, its stability and attractiveness indicate more states will have performance budgeting in the future. It is clearly the least controversial process for linking state budgets to institutional performance. This lack of controversy probably explains why it has become the preferred approach to this linkage.

Table 5. Likelihood of Adopting Performance Budgeting for Public Higher Education

Likelihood	Year	Number Percentage	States
Highly Likely	1998	4 states, (14%)	Alabama, Massachusetts, New Jersey, South Carolina.
Likely	1998	7 states, (24%)	Connecticut, Maryland, Montana, Nevada, Utah, Virginia, Wyoming.
Unlikely	1998	6 states, (21%)	California, Delaware, New Hampshire, North Dakota, Pennsylvania, Tennessee.
Highly Unlikely	1998	None.	None.
Cannot Predict	1998	12 states, (41%)	Alaska, Arizona, Arkansas, Kentucky, Michigan, Minnesota, Missouri, New Mexico, New York, Ohio, Vermont, Wisconsin.

The 1998 Survey included six additional questions to clarify the link of performance budgeting to the budget process and its actual effect on funding. Respondents from states with recently adopted programs — with procedures not implemented or fixed — were asked to answer the questions based on the intent of the legislation or policy. Sixty-two percent of the 21 programs submit reports of the performance of colleges and universities to the governor's budget office and two-thirds send them to legislative committees, as part of the budget preparation process. Eighty-one percent of the programs have higher education officials discuss these reports with executive officials and the same percentage with legislators in budget hearings. SHEFOs say that slightly more than half the executive budgets in states with performance budgeting normally refer to the performance indicators or the performance reports. On the other hand, only 43 percent of the appropriation acts or related budget documents normally refer to the indicators or the reports.

The final question asked the SHEFOs to estimate the actual effect of institutional performance on the budgets of public colleges and universities. The survey offered five choices: large effect, moderate effect, little effect, no effect, or can not determine the effect. Two states selected large, five moderate, five little, and one no effect. The responses from SHEFOs who could predict split almost equally between a combination of large and moderate effect and a category of little or no effect. Of the 21 programs, large and moderate effect received 33 percent; and little or no effect, 29 percent. SHEFOs from 38 percent of the 21 states could not determine the effect of performance budgeting on funding. Readers should not construe the last response as implying that the effect was so vague that the SHEFOs could not determine the impact. Six of the eight states in this category had adopted performance budgeting too recently to determine the effect, and several of them had not yet implemented their programs.

Assessing the answers on performance budgeting is a little like seeing the glass as half full or half empty. The cynic could say that the closer the process comes to funding the looser the link becomes. The percentage of programs that allows a positive response does decline when the process moves from budget preparation, to appropriations act, to funding results. But this glib conclusion would give a false impression. It seems significant that a large majority of the programs builds performance into the budget

preparation process. It is also impressive that a majority of the executive budgets refer to the performance indicators and reports. Although the references to indicators and reports in the appropriations acts do fall below a majority, it is not far below fifty percent. Finally, a third of the SHEFOs say their performance budgeting programs have a large or moderate effect on the funding of public higher education. This percent is even more surprising, since the programs in six states were too new to predict the effect. Frankly, the responses reveal a closer link during the process stage and even the funding phase than we would have anticipated.

§ PERFORMANCE FUNDING

Performance funding also showed growth but more volatility than performance budgeting. The April 1997 survey listed 10 states, or 20 percent with performance funding. By June 1998, this number had climbed to 13 states or 26 percent — a significant increase in just 14 months. But this increase cloaks sizable shifts. Arkansas had dropped performance funding before the 1997 survey. Kentucky and Minnesota listed in 1997 had abandoned it by 1998; and Colorado will phase out the program next year in favor of performance budgeting. Countering these losses, five new states — Illinois, Indiana, Louisiana, Oklahoma, and South Dakota – have adopted performance funding since last year's survey. These changes confirm our conclusion last year that "the desirability of performance funding in theory is matched by its difficulties in practice" (Burke and Serban, 1997b).

Table 6. Current Status of Performance Funding for Public Higher Education

Year	Number Percentage	States
1997	10 states, (20%)	Colorado, Connecticut, Florida, Kentucky, Minnesota, Missouri, Ohio, South Carolina, Tennessee, Washington.
1998	13 states, (26%)	Colorado, Connecticut, Florida, Illinois, Indiana, Louisiana, Missouri, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Washington.

Despite this volatility, their SHEFOs believe that all of the states with performance funding, except Colorado, will continue the program. Eight of the 13 states consider its continuance highly likely and four likely. Last year only three of them thought continuance of performance funding was highly likely. The SHEFO for Colorado calls the continuance of the program highly unlikely, but she confirms the intent to end it next year. The respondents seem confident of their predictions of the continuance of the current programs of performance funding. For example, Connecticut moved from unpredictable last year to highly likely this year. Its SHEFO thinks this state may well expand its small program with a single indicator on minority enrollment to include more measures.

Table 7. Likelihood of Continuing Performance Funding for Public Higher Education

Likelihood	Year	Number Percentage	States
Highly Likely	1997	3 states, (30%)	Florida, South Carolina, Tennessee.
	1998	8 states, (62%)	Connecticut, Illinois, Missouri, Oklahoma, South Carolina, South Dakota, Tennessee, Washington.
Likely	1997	5 states, (50%)	Colorado, Minnesota, Missouri, Ohio, Washington.
	1998	4 states, (31%)	Florida, Indiana, Ohio, Louisiana.
Unlikely	1997	None.	None.
	1998	None.	None.
Highly Unlikely	1997	None.	None.
	1998	1 state, (8%)	Colorado.
Cannot Predict	1997	2 states, (20%)	Connecticut, Kentucky.
	1998	None.	None.

Predictions about the likelihood of future adoptions of performance funding are much more divided. SHEFOs consider the initiation of the program highly likely in four states and likely in eight. But five SHEFOs see its start in the next five years as highly unlikely and nine as unlikely. Those in ten states could not predict the prospects of performance funding. Perceptions of the problems in South Carolina apparently colored the attitudes of some SHEFOs on performance funding. Several of those in states with, or considering, performance funding noted their programs had, or would have, fewer indicators and allocate smaller sums than South Carolina's 37 indicators and 100 percent funding. Some of the SHEFOs in states unlikely to accept performance funding also mentioned the South Carolina situation as a reason for avoiding the program. Neither group appeared to know the details of the efforts in South Carolina to cushion the impact of the 37 indicators and 100 percent funding. In spite of the division over the future adoption of the program, if the SHEFOs' predictions come true, 24 states or 48 percent could have performance funding in five years. Given the past volatility of this program, these predictions may seem less likely than those for performance budgeting.

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Table 8. Likelihood of Adopting Performance Funding for Public Higher Education

Likelihood	Year	Number Percentage	States
Highly Likely	1997	7 states, (18%)	Illinois, Louisiana, Maryland, Maine, Oregon, South Dakota, Utah
	1998	4 states, (11%)	Massachusetts, Mississippi, New Jersey, New York
Likely	1997	10 states, (25%)	Alaska, Indiana, Massachusetts, Nebraska, Nevada, New York, North Dakota, Texas, West Virginia, Wyoming
	1998	8 states, (22%)	Maryland, Nebraska, Nevada, Texas, Utah, Virginia, West Virginia, Wyoming
Unlikely	1997	9 states, (23%)	California, Georgia, Hawaii, Iowa, Montana, New Jersey, North Carolina, Rhode Island, Vermont
	1998	9 states, (24%)	Alabama, Arkansas, Delaware, Georgia, Idaho, Michigan, Montana, Oregon, Pennsylvania
Highly Unlikely	1997	3 states, (8%)	Delaware, Michigan, New Hampshire,
	1998	6 states, (16%)	California, Hawaii, Iowa, Kentucky, New Hampshire, Rhode Island
Cannot Predict	1997	11 states, (28%)	Alabama, Arkansas, Arizona, Idaho, Kansas, Mississippi, New Mexico, Oklahoma, Pennsylvania, Virginia, Wisconsin
	1998	10 states, (27%)	Alaska, Arizona, Kansas, Maine, North Carolina, North Dakota, New Mexico, Minnesota, Vermont, Wisconsin

Analysis of the past predictions of these officers can test the validity of their future forecasts. In 1997, SHEFOs said eight of the ten states with performance funding would continue the program, with three highly likely and five likely. Respondents called Minnesota and Colorado likely to keep the program for the next five years. But Minnesota has dropped performance funding and Colorado will abandon it after this year. On the other hand, the prediction that six states would continue the program proved correct. Of the two states cited as unpredictable, Kentucky ended; and Connecticut continued the program. The 1998 survey confirms the 1997 forecasts about the future adoption of performance funding. Of the seven states considered highly likely to adopt performance funding in the next five years, three of them did in a single year — Illinois, Louisiana, and South Dakota. Maryland and Utah remain likely to adopt. Only Oregon has moved to unlikely; and Maine to the category of can not predict. Of the ten states called likely to adopt performance funding in 1997, five remain likely; two are highly likely; and one has adopted performance funding. Alaska and North Dakota have changed to the category of can not predict.

The predictions about future adoption in the 1998 Survey appear firm. They cite Massachusetts, Mississippi, New Jersey, and New York as highly likely to adopt performance funding. Comments from their SHEFOs during the 1998 interviews confirmed this conclusion. SHEFOs from New

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Jersey and Massachusetts say their states are almost certain to adopt performance funding this year. The New Jersey legislature did pass a statute during its current session. Although an enabling act may not pass both houses of the Massachusetts General Assembly, the higher education coordinating commission is committed to implementing performance funding without legislation. The SHEFO from Mississippi says the coordinating board and campuses agree on a program and would have adopted it this year, if the state budget had provided a sufficient increase to protect the base budgets of campuses.

Developments in New York could offer a new approach to performance funding. In spite of the absence of an official program adopted by the state or the coordinating agency, the two system governing boards in New York are moving to implement performance funding in their internal allocations to campuses. The Trustees of the City University used campus performance on several indicators to distributed new faculty positions for this year. The governing board of the State University of New York has recently approved a new funding model that could allocate up to six percent of campus funding based on performance. When the first and the third largest university systems use or adopt performance funding without a mandate, it is worth watching whether other systems follow their lead. In any case, all four of the states called highly likely to adopt performance funding in the next five years have or will soon take this action.

Performance funding has received much more national attention than performance budgeting. The latter has attracted little notice in the media or higher education circles, although one of its programs began in the 1970s and two in the 1980s. Aside from Tennessee and the small program in Connecticut, performance funding is a product of the 1990s. The reasons for the attention to this program stem partly from the publicity given to the controversial mandates in South Carolina. In addition, the tight tie to funding in performance funding as opposed to the loose link in performance budgeting may explain the differences in notoriety. Performance funding presents an immediate and automatic threat to campus budgets, while the impact of performance budgeting is more remote and obscure.

The controversy created by the South Carolina's mandate of 100 percent funding and prescription of 37 indicators has not ended the growth, but it has possibly encouraged a more cautious approach to performance funding. States appear much more aware of the problems of hasty implementation, too many indicators, and budget instability. The new programs seemed designed to make targeted changes rather than radical reforms. All of them limited the size of allocations and the number of indicators. Of the five programs adopted since the 1997 Survey, legislation mandated only Louisiana's and prescribed the indicators in none of the states. These characteristics are quite different from the programs in place before the 1997 Survey. Eight of the ten states listed in 1997 mandated the program and half prescribed the indicators. Of these ten programs, legislators and/or governors initiated six, coordinating board three and a combination of all three groups one. In the five programs started after the first Survey, coordinating agencies initiated two; legislatures one; a combination one; and a special community college task force, one.

The latest developments suggest that performance funding in the future may involve fewer mandates and prescriptions from state governments and more flexible and limited programs initiated by coordinating agencies with campus participation. The new performance funding programs adopted after the 1997 Survey appear much less aggressive and ambitious and much more cautious and careful. For example, the Illinois program covers only community colleges, while Indiana's has only a single indicator on number of graduates, although the latter may expand its program.

Table 9. States with Performance Funding

State	Adoption Year	Mandate	Indicators	Initiation	Performance Budgeting
Tennessee	1979	No	No	Coord. Board or Agency	No
Connecticut	1985	Yes	No	Coord. Board or Agency	No
Missouri	1991	No	No	Coord. Board or Agency	No
Colorado	1994	Yes	Yes	Legislature	Yes
Florida	1994	Yes	Yes	Governor, Legislature	Yes
Ohio	1995	Yes	No	Governor, Legislature, Coord. Board or Agency	No
South Carolina	1996	Yes	Yes	Legislature	No
Indiana	1997	No	No	Coord. Board or Agency	Yes
Louisiana	1997	Yes	Yes	Legislature	Yes
Oklahoma	1997	No	No	Coord. Board or Agency	Yes
South Dakota	1997	No	No	Governor, Legislature, Coord. Board or Agency	Yes
Washington	1997	Yes	Yes	Governor, Legislature, Coord. Board or Agency	Yes
Illinois	1998	No	No	Other	Yes

§ THE FUTURE

The future of some form of linking resources to results in public higher education seems bright. The SHEFOs' predictions in 1998 say that thirty-five states – 70 percent — are likely to have at least one of the two programs in place in the next five years. No less than 19 of those states – 54% percent – are projected to have both performance funding and performance budgeting. Indeed, the future growth in both programs is likely to come in states that combined the two approaches. Seven of the states considered likely to adopt performance funding were also cited as likely to start performance budgeting. Only two states – Alabama and Montana – are seen as likely to adopt performance budgeting, while citing the prospect of performance funding as unlikely or unpredictable. This combination could represent an emerging trend. Although our surveys sought to separate performance funding and performance budgeting, more states are now adopting both programs.

Whether separate or combined, SHEFOs see 70 percent of the states as having at least one of the two programs in the next five years. They believe only four states are unlikely to accept either program — California, Delaware, New Hampshire and Pennsylvania. Those from six states say they cannot predict whether their states will adopt either of the programs. They include Alaska, Arizona, Minnesota, New Mexico, Vermont, Wisconsin. Respondents from Arkansas, Kentucky, Michigan, and North Dakota considered adoption of the two programs as a combination of unlikely and unpredictable. The finance officer from Georgia could not predict whether it would continue performance budgeting. If the SHEFOs' forecasts are correct, the future lies in somehow connecting

state resources to the results of public colleges and universities. The questions are whether states will link them loosely in performance budgeting or tie them tightly in performance funding; and how many will adopted both programs.

The 1998 survey suggests that performance funding has become more stable in the states with the program but less attractive to states without it. Last year, SHEFOs predicted that eight of the ten states with performance funding would maintain it. More important, they projected an astonishing increase, with 17 states considered likely to start it in the next five years. These predications claimed that 50 percent of the states were likely to have performance funding in the next five years. The 1998 survey projects that 12 of the 13 states with performance funding are likely to continue it, and forecasts 12 of the states without the program as likely to start it in the next five years. This prediction — if correct — would mean that 48 percent of the states would have performance funding. The 1998 survey shows that SHEFOs in states with performance funding seem more confident of its continuance, but less convinced that it would attract the huge number of adoptions projected last year.

The future projected for performance budgeting shows both stability and growth. Responses to the 1998 Survey reveal that 21 states currently have performance budgeting and that no less than 20 are likely to continue the program. The SHEFOs see eleven more states as likely to start the program. This prediction of new adoptions is striking, since 21 states already have performance budgeting. The future growth of performance budgeting seems assured, if states continue to adopt performance budgeting for all of their agencies and services.

The combination of performance budgeting and performance funding may stem from their contrasting strengths and shortcomings. The main strengths of both performance funding and performance budgeting are also their chief shortcomings. The tight tie of performance funding to specific allocations makes the connection to funding clear and provides an incentive for good or improved performance. Except in South Carolina, the allocation of relatively small amounts of funding eliminates the threat to the base budgets of colleges and universities. However, this direct tie to relatively small appropriations limits the number of indicators in order to avoid trivializing important objectives with trifling sums. Such a limited number of indicators can never cover all of the critical objectives of colleges and universities and raises special problems of validity and reliability of the measures used. In addition, the automatic shift of funding can penalize campuses for poor performance caused by special circumstances beyond their control. The loose link in performance budgeting between achievements and allocations allows more discretion in funding decisions and more indicators to cover the multiple goals of colleges and universities. At the same time, it obscures the real relation between performance and funding and holds the possibility of jeopardizing large portions of institutional budgets.

Performance funding is clear but inflexible. Performance budgeting is flexible but unclear. The growing practice of adopting both programs may combine their advantages while avoiding their disadvantages. Performance budgeting allows the testing of a large list of performance indicators that can serve to winnow their number for the short list required for performance funding. Performance funding can assure — what performance budgeting has not — that specific resources reward good results. Merging the best elements in both programs could remove this flaw. If performance budgeting set aside a specific percent of the state allocation for performance, it would achieve the biggest advantage of performance funding and avoid most of its disadvantages. The specific percent would provide the tangible incentive for improved performance given by performance funding, without the automatic allocations for achievements on each indicator. This approach would allow discretion to the coordinating or governing boards in assessing campus circumstances when distributing performance monies. By considering institutional performance on the indicators as whole, rather than awarding funds for results on each measure, this merged form of budgeting

would allow the use of a longer list of indicators. More measures could include more of the multiple objectives of public higher education and reduce the problem of validity and reliability of individual measures.

Oregon's new program of performance budgeting is making this modification. The Board of Regents will start with a half a percent of the support from the state general fund and move to four percent in six years. Although Oregon does not have performance funding, it has merged the chief strength of performance funding – a specific allocation – with its program in performance budgeting. The future may see more of these mergers. Instead of distinguishing these two different approaches in performance funding and performance budgeting in the future, we may be describing a new creation with some of the best attributes of each of the old programs.

§ CONCLUSIONS AND POSSIBILITIES

Analysis of the two Surveys suggest some conclusions and possibilities:

1. Fifty-two percent of the states currently consider performance in the budgeting of public colleges and universities and more are likely to do so in the future.
2. Performance budgeting appears both stable and attractive and is now the preferred process for linking institutional budgets to performance.
3. Performance funding appears more stable in the states that have it but less attractive to the states without it.
4. More states are adopting both performance budgeting and performance funding.
5. The future may see a merger of the two approaches to achieve the advantages and avoid the disadvantages of each program.
6. State mandates and prescriptions are declining, allowing coordinating boards with campus participation to initiate less ambitious and more acceptable programs.
7. Trustees of some state university systems may follow the lead of SUNY and CUNY in adopting allocation models that anticipate and avoid the mandates and prescriptions of performance programs adopted by state governments or coordinating boards.
8. Linking state resources to institutional budgets is alive and well, but the nature of that linkage is unclear and unfolding.

Our Second Survey suggests that the interests in funding public higher education for results is growing. But questions remain. Will the link between funding and results be loose or tight? Will more states have both programs or will the two programs tend to merge? Will the coordinating boards and university systems move to make results count in budgeting or wait for state mandates and prescriptions? Finally, is funding for results a fad or trend?

It is still too soon to tell whether funding for results is a fad or trend. But our 1998 survey suggests that the interest in making results count in budgeting for public colleges and universities continues to grow. A recent survey of Governors confirms this conclusion (Education Commission of the States). The Chronicle of Higher Education reports that nearly all of the 35 governors who responded "thought it was important for states to link spending on colleges with institutional performance... "(Schmidt, 1998). Thanks to a renewed grant from The Pew Charitable Trusts, we hope to determine by surveys in the next two years whether this growth is only a fad or really a trend.

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APPENDIX

SURVEY OF STATE HIGHER EDUCATION FINANCE OFFICERS
PERFORMANCE FUNDING AND BUDGETING
June 1998

STATE: _____

Definitions:

Performance Funding: state funding tied directly to achievements of public colleges and universities on specific performance indicators (money awarded after performance achieved).

Performance Budgeting: state governments use indirectly reports of system or institutional achievements on performance indicators as a context in shaping the total budget for public higher education and/or its institutions (indirect influence on budget levels).

1. Does your state currently have performance funding for public colleges or universities?
Yes [ ] No [ ]

If **yes**:

A. When was performance funding adopted: Year _____
B. Was it mandated in legislation? Yes [ ] No [ ]
C. Were the indicators prescribed in legislation? Yes [ ] No [ ]
D. What individual or group(s) initiated performance funding?

Governor	[ ]
Legislature	[ ]
Coordinating board or agency	[ ]
Other (please specify)	_____

E. What was the level of funding in each of the years the program was in place?

First year	_____
Second year	_____
Third year	_____
Fourth year	_____
Fifth year	_____
Latest year	_____

2. Does your state currently have performance budgeting for public colleges and universities?
Yes [ ] No [ ]

If **yes**:

A. When was performance budgeting adopted: Year _____
B. Was it mandated in legislation? Yes [ ] No [ ]
C. Were the indicators prescribed in legislation? Yes [ ] No [ ]
D. What individual or group(s) initiated performance budgeting?
Governor _____
Legislature _____
Coordinating board or agency _____
Other (please specify) _____

3. If no current performance funding or performance budgeting in your state for public higher education:
A. Has your state ever had performance funding for public colleges or universities?
Yes [ ] No [ ]

If **yes**:

Date adopted _____
Date abandoned _____
Why abandoned _____
_____

B. Has your state ever had performance budgeting for public colleges or universities?
Yes [ ] No [ ]

If **yes**:

Date adopted _____
Date abandoned _____
Why abandoned _____
_____

4. A. If there is **no** performance funding for public higher education, how likely is it that your state will adopt it in the next five years?
Highly likely [ ] Likely [ ] Unlikely [ ] Highly unlikely [ ] Cannot predict [ ]

B. If there **is** performance funding for public higher education, how likely is it that your state will continue it over the next five years?
Highly likely [ ] Likely [ ] Unlikely [ ] Highly unlikely [ ] Cannot predict [ ]

5. A. If there is **no** performance budgeting for public higher education, how likely is it that your state will adopt it in the next five years?

Highly likely [ ] Likely [ ] Unlikely [ ] Highly unlikely [ ] Cannot predict [ ]

B. If there **is** performance budgeting for public higher education, how likely is it that your state will continue it over the next five years?

Highly likely [ ] Likely [ ] Unlikely [ ] Highly unlikely [ ] Cannot predict [ ]

6. Does your state have performance reporting for public colleges and universities?

Yes [ ] No [ ]

If **yes**,

Date adopted _____

If **no**, how likely is it that your state will adopt it in the next five years?

Highly likely [ ] Likely [ ] Unlikely [ ] Highly unlikely [ ] Cannot predict [ ]

Exclusive *Performance Budgeting* Questions

1. Are reports of the performance of public colleges or universities on a list of indicators normally submitted to the governor's budget office as part of the budget process?

Yes [ ] No [ ]

2. Are reports of the performance of public colleges or universities on a list of indicators submitted to legislative committee(s) as part of the budget process?

Yes [ ] No [ ]

3. Do higher education officials normally discuss the performance of public colleges and universities with officials in the executive branch as part of the budget preparation process?

Yes [ ] No [ ]

4. Does the Governor's budget proposal to the Legislature normally refer to the performance indicators or performance reports?

Yes [ ] No [ ]

5. Are the performance indicators or reports normally discussed in legislative budget hearings?

Yes [ ] No [ ]

6. Does the appropriations act or related budget documents normally refer to the performance indicators or performance reports?

Yes [ ] No [ ]

7. Do the coordinating and/or system governing boards consider performance reports in the allocation of resources to colleges or universities?

Yes [ ] No [ ]

8. How would you describe the actual effect of performance budgeting in your state on the funding of public colleges and universities?

Large effect [ ] Moderate effect [ ] Little effect [ ] No effect [ ]
Can not determine the effect [ ]

COMMENTS:

_____

_____

_____

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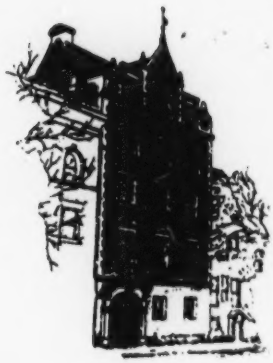

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